EASYKNIT INTERNATIONAL HOLDINGS LIMITED

永 義 國 際 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1218)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2006

The board of directors (the "Board") of Easyknit International Holdings Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2006, together with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	NOTES	**2006** *HK$'000*	**2005** *HK$'000* *(Restated)*
Turnover	4	489,715	590,001
Cost of sales		(400,355)	(461,181)
Gross profit		89,360	128,820
Other income		9,386	5,127
Distribution costs		(12,689)	(20,873)
Administrative expenses		(49,459)	(55,345)
Gain arising on change in fair value of investment properties		189,730	—
Reversal of deficit arising on revaluation of investment properties		—	140,690
Gain on fair value changes of investments held for trading		12	—
Unrealised gain on other investments		—	158,579
Impairment loss on trade and other receivables	6	(33,513)	(4,215)
Loss on disposal of investment properties		(1,136)	—
Gain on disposal of subsidiaries	7	—	14,149
Share of results of associates		(4,548)	2,876
Finance costs	8	(4,609)	(3,566)
Profit before taxation	9	182,534	366,242
Taxation	10	(9,683)	(17,773)
Profit for the year attributable to equity holders of the Company		172,851	348,469
Earnings per share	12		
Basic		HK$0.131	HK$0.286
Diluted		N/A	HK$0.285

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2006

	NOTES	**2006**	**2005**
		HK$'000	*HK$'000*
			(Restated)
Non-current assets			
Property, plant and equipment		24,190	24,435
Investment properties		589,700	619,970
Intangible asset		921	921
Interests in associates		62,887	15,729
Available-for-sale investments		93,987	—
		771,685	661,055
Current assets			
Properties held for sale		14,426	21,624
Investments held for trading		3,600	—
Other investments		—	244,030
Inventories		7,766	2,423
Trade and other receivables	13	72,226	196,213
Loans receivable		66,053	71,875
Bills receivable		17,220	44,925
Tax recoverable		301	2,051
Bank balances and cash		174,580	83,901
		356,172	667,042
Current liabilities			
Trade and other payables	14	41,754	37,118
Bills payable		4,514	1,564
Tax payable		24,364	23,727
Obligations under finance leases			
— amount due within one year		—	18
Bank borrowings - amount due within one year		3,819	120,986
Consideration repayable on disposal of subsidiaries		—	11,120
		74,451	194,533
Net current assets		281,721	472,509
		1,053,406	1,133,564

	NOTES	**2006**	**2005**
		HK$'000	*HK$'000*
			(Restated)
Capital and reserves			
Share capital		132,367	132,367
Reserves		898,561	921,321
		1,030,928	1,053,688
Non-current liabilities			
Bank borrowings - amount due after one year		—	66,363
Deferred taxation		22,478	13,513
		22,478	79,876
		1,053,406	1,133,564

NOTES

1. GENERAL AND BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payments", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given numbers of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to the directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. As all share options of the Group granted on or after 7 November 2002 had lapsed before 1 April 2005, there is no financial effect on the profit or loss for the prior accounting periods.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice 24

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as investment securities, other investments or held-to-maturity investments as appropriate. Investment securities are carried at cost less impairment losses (if any) while other investments are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 April 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, or held-to-maturity financial assets. Financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale financial assets that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. Loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method after initial recognition.

On 1 April 2005, the Group classified its other investments with carrying amount of HK$244,030,000 to available-for-sale investments and measured them in accordance with the requirements of HKAS 39. No adjustment has been made to the Group's accumulated profits at 1 April 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables or held-to-maturity financial assets. Financial liabilities are generally classified as financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. As at 31 March 2005, the Group's bills receivable discounted with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$3,117,000 have been recognised on the balance sheet date as at 31 March 2006. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In the opinion of the directors of the Company, the allocation between the land and buildings elements cannot be made reliably. Thus the entire lease is classified as finance lease and continues to be accounted for as property, plant and equipment.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards (see note 3 for the financial impact).

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2005 have been restated (see note 3 for the financial impact).

The Group has not early applied the following new HKFRSs and HKFRS interpretations ("HK(IFRIC) - INT") that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new HKFRSs and HKFRS interpretations and anticipate that the adoption of these new HKFRSs and HKFRS interpretations should not result in any significant change in the future as to the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment [3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) - INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives [6]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

[5] Effective for annual periods beginning on or after 1 May 2006.

[6] Effective for annual periods beginning on or after 1 June 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	2006	2005
	HK$'000	*HK$'000*
Income statement items		
Increase in gain arising on change in fair value of investment properties	115,621	—
Increase in administrative expenses in relation to share-based payments expense	(1,900)	—
Increase in deferred tax liabilities relating to investment properties	(4,041)	(7,884)
Increase (decrease) in profit for the year	109,680	(7,884)

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	31.3.2005	Retrospective adjustments	31.3.2005	Prospective adjustments	1.4.2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Originally stated)		*(Restated)*		*(Restated)*
Balance sheet items					
HKAS 39					
Other investments	244,030	—	244,030	(244,030)	—
Bills receivable	—	—	—	3,441	3,441
Available-for-sale investments	—	—	—	244,030	244,030
Bank borrowings					
— amount due within one year	(120,986)	—	(120,986)	(3,441)	(124,427)
HK(SIC) Interpretation 21					
Deferred tax liabilities	(1,717)	(11,796)	(13,513)	—	(13,513)
Total effects on assets and liabilities		(11,796)		—	
Accumulated profits and total effect on equity	697,968	(11,796)	686,172	—	686,172

The cumulative effects of the application of the new HKFRSs as at 31 March 2004 are summarised below:

	31.3.2004	Retrospective adjustments	31.3.2004
	HK$'000	*HK$'000*	*HK$'000*
	(Originally stated)		*(Restated)*
Balance sheet items			
HK(SIC) Interpretation 21			
Deferred tax liabilities and total effect on liabilities	(510)	(3,912)	(4,422)
Accumulated losses and total effect on equity	(1,443,893)	(3,912)	(1,447,805)

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods and properties sold, net of returns, and services rendered by the Group, the total amount of quota income received and receivable from temporary transfer of permanent textile quota entitlements, and rental income received and receivable during the year. An analysis of the Group's turnover is as follows:

	2006	2005
	HK$'000	*HK$'000*
Continuing operations:		
Sales of goods	458,666	499,121
Rental income	22,432	24,345
Sales of properties	8,349	39,017
Building management fee income	268	173
Quota income	—	20,369
	489,715	583,025
Discontinued operation:		
Bleaching and dyeing services	—	6,976
	489,715	590,001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four main operating divisions -garment sourcing and export, property investment, investment in securities and loan financing. These divisions are the bases on which the Group reports its primary segment information. The division of bleaching and dyeing were discontinued in May 2004.

Segment information about these businesses is presented below:

Year 2006

Income statement

	Continuing operations					
	Garment sourcing and export *HK$'000*	**Property investment** *HK$'000*	**Investment in securities** *HK$'000*	**Loan financing** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER						
External	458,666	31,049	—	—	—	489,715
Inter-segment	—	3,311	—	—	(3,311)	—
Total	458,666	34,360	—	—	(3,311)	489,715
RESULT						
Segment result	(21,342)	212,484	95	4,219	(3,765)	191,691
Share of results of associates						(4,548)
Finance costs						(4,609)
Profit before taxation						182,534
Taxation						(9,683)
Profit for the year						172,851

Note: Inter-segment transactions are charged at prevailing market prices.

Year 2005

Income statement

	Continuing operations				Discontinued operations		
	Garment sourcing and export	**Property investment**	**Investment in securities**	**Loan financing**	**Bleaching and dyeing**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER							
External	519,490	63,535	—	—	6,976	—	590,001
Inter-segment	—	3,000	—	—	7	(3,007)	—
Total	519,490	66,535	—	—	6,983	(3,007)	590,001
RESULT							
Segment result	23,667	169,889	159,498	1,926	(258)	(1,939)	352,783
Gain on disposal of subsidiaries					14,149		14,149
Share of results of associates							2,876
Finance costs							(3,566)
Profit before taxation							366,242
Taxation							(17,773)
Profit for the year							348,469

Notes:

(a) Inter-segment transactions are charged at prevailing market prices.

(b) Turnover from garment sourcing and export includes income from temporary transfer of permanent textile quota entitlements of HK$19,812,000.

Geographical segments

An analysis of the Group's turnover by geographical market is as follows:

	Turnover	
	2006	**2005**
	HK$'000	*HK$'000*
Hong Kong	31,049	63,535
The People's Republic of China, excluding Hong Kong (the "PRC")	—	6,976
United States of America ("USA")	422,552	468,968
Canada	609	1,214
Mexico	8,166	12,309
Europe	27,339	36,999
	489,715	590,001

6. IMPAIRMENT LOSS ON TRADE AND OTHER RECEIVABLES

During the year ended 31 March 2006, impairment loss on trade and other receivables of approximately HK$33,513,000 (2005: HK$4,215,000) was provided of which impairment loss amounting to approximately HK$33,315,000 (2005: nil) was provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier.

7. GAIN ON DISPOSAL OF SUBSIDIARIES

During the year ended 31 March 2005, the amount represented the gain on disposal of the entire issued shares of Po Cheong International Enterprises Limited ("Po Cheong"), a wholly-owned subsidiary of the Company, to a wholly-owned subsidiary of Easyknit Enterprises Holdings Limited (formerly known as "Asia Alliance Holdings Limited") ("Easyknit Enterprises"), an associate of the Group.

8. FINANCE COSTS

	2006	**2005**
	HK$'000	*HK$'000*
Interest on:		
- bank borrowings wholly repayable within five years	4,602	3,559
- obligations under finance leases	7	7
	4,609	3,566

9. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	5,695	7,383
Other staff costs, including retirement benefits costs	19,557	20,415
Share-based payments expense	1,900	—
Total staff costs	27,152	27,798
Amortisation of permanent textile quota entitlements *(note)*	—	884
Auditors' remuneration:		
- current year	689	647
- underprovision in prior years	43	78
Cost of inventories consumed	387,814	420,760
Cost of properties sold	7,198	35,062
Depreciation and amortisation of property, plant and equipment		
- owned assets	1,296	1,599
- assets held under finance leases	18	20
	1,314	1,619
Impairment loss on inventories	663	3,571
Purchased temporary textile quota entitlements utilised	—	516
and after crediting:		
Dividend income from listed investments	126	—
Gain on disposal of investments held for trading	83	—
Gain on disposal of property, plant and equipment	54	143
Gain on disposal of permanent textile quota entitlements	—	2
Gain on disposal of other investments	—	919
Interest income	8,387	2,118

Note: The amount is included in distribution costs.

10. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current tax - Hong Kong Profits Tax:		
Current year	710	8,677
Underprovision in prior years	8	5
	718	8,682
Deferred taxation	8,965	9,091
Tax charge attributable to the Company and its subsidiaries	9,683	17,773

11. DIVIDEND

	2006 *HK$'000*	2005 *HK$'000*
Final dividend paid for 2005 of 0.5 HK cent (2004: 0.5 HK cent) per share	6,618	6,618
Proposed final dividend of 0.5 HK cent (2006: nil) per share in 2005	—	6,618

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 March 2006.

12. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are based on the following data:

	2006 *HK$'000*	2005 *HK$'000*
Earnings for the purposes of calculating basic and diluted earnings per share	172,851	348,469

Number of shares	2006	2005
Number/weighted average number of shares for the purposes of calculating basic earnings per share	1,323,673,386	1,218,081,240
Effect of dilutive potential shares relating to outstanding share options		5,256,920
Weighted average number of shares for the purpose of calculating diluted earnings per share		1,223,338,160

No diluted earnings per share in 2006 is presented as the exercise price of the Company's outstanding share options was higher than the average market price for the period from the date of grant to 31 March 2006.

The following table summaries the impact on basic and diluted earnings per share as a result of:

	2006		2005	
	Basic *HK$*	Diluted *HK$*	Basic *HK$*	Diluted *HK$*
Figures before adjustments	0.048	N/A	0.293	0.291
Adjustments arising from the adoption of HKFRSs *(see notes 2 and 3)*	0.083	N/A	(0.007)	(0.006)
Restated	0.131	N/A	0.286	0.285

13. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	24,299	34,682
Deposits to suppliers	42,585	153,748
Other receivables	5,342	7,783
	72,226	196,213

The Group allows an average credit period ranged from 30 to 90 days to its trade customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 - 60 days	22,818	28,665
61 - 90 days	1,003	2,742
Over 90 days	478	3,275
	24,299	34,682

The fair value of the Group's trade and other receivables at 31 March 2006 approximates the corresponding carrying amount.

14. TRADE AND OTHER PAYABLES

Included in trade and other payables is trade payables of approximately HK$26,163,000 (2005: HK$9,858,000). The aged analysis of trade payables at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 - 60 days	26,009	9,507
61 - 90 days	2	14
Over 90 days	152	337
	26,163	9,858

The fair value of the Group's trade and other payables at 31 March 2006 approximates the corresponding carrying amounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$489,715,000, representing a decrease of approximately 17.0% from last year (2005: approximately HK$590,001,000). The decrease was mainly due to the cancellation of quota system which affected the price that the Group tagged and reduction in the residential units available for sale of Fa Yuen Plaza in Mongkok during the year under review.

Gross profit fell approximately 30.6% to approximately HK$89,360,000 (2005: approximately HK$128,820,000), primarily because of shrinking profit margins amid increasingly fierce competition in the garment sourcing and export industry.

Profit attributable to shareholders dropped approximately 50.4% to approximately HK$172,851,000 (2005: approximately HK$348,469,000), which was largely due to the impairment loss on trade and other receivables of approximately HK$33,513,000 and share of loss of associates of approximately HK$4,548,000. This was partly offset by the gain arising on change in fair value of investment properties of approximately HK$189,730,000 and decrease in cost of sales. Basic earnings per share went down by approximately 54.2% to approximately HK$0.131 (2005: approximately HK$0.286).

Cost of sales dropped by approximately 13.2% to approximately HK$400,355,000 (2005: approximately HK$461,181,000), reflecting the decrease in sales for the year under review. The total operating expenses reduced by approximately 18.5% to approximately HK$62,148,000 (2005: approximately HK$76,218,000) as a result of imposing stringent cost control measures.

Finance costs increased by approximately 29.2% to approximately HK$4,609,000 (2005: approximately HK$3,566,000), principally due to the increase in interest rate during the year under review.

Business Review

During the year ended 31 March 2006, the Group was principally engaged in sourcing and exporting of cotton-based knitted garments for infants, children and women and property investment.

Garment sourcing and export

During the year under review, garment sourcing and export continued to be the principal business of the Group and contributed approximately 93.7% to the Group's total turnover, an approximately 5.7% increase as compared to that of last year (2005: approximately 88.0%). However, turnover from this segment diminished by approximately 11.7% to approximately HK$458,666,000 (2005: approximately HK$519,490,000). This segment suffered a loss of approximately HK$21,342,000 (2005: a profit of approximately HK$23,667,000), largely due to the impairment loss on trade and other receivables of approximately HK$33,315,000 provided in respect of the deposits to a supplier paid by the Group as a result of the voluntary liquidation of such supplier, details of which are set out in the Company's announcement dated 3 November 2005. The Group continued to alter its product mix to cater for the changes in customer needs. The product mix of infant wear and ladies wear changed from 35: 56 for the year ended 31 March 2005 to 38: 46 for the year under review.

Geographically, the United States of America (the "US") remained to be the Group's major export market, from which approximately 86.3% of the Group's total turnover was generated (2005: approximately 79.5%).

The Hong Kong, European, Mexican and Canadian markets accounted for approximately 6.3%, 5.6%, 1.7% and 0.1% of the Group's total turnover respectively.

Property investment

For the year ended 31 March 2006, the property investment segment contributed approximately HK$31,049,000 or 6.3% to the Group's total turnover (2005: approximately HK$63,535,000 or 10.8%). Profit generated from this business segment went up approximately 25.1% to approximately HK$212,484,000 (2005: approximately HK$169,889,000), principally due to the gain arising on change in fair value of investment properties of approximately HK$189,730,000. This was partly offset by the decrease in rental income following the disposal of two properties in The Annex Land Building of Excelsior Plaza, Causeway Bay, Hong Kong (the "Properties") on 3 August 2005. Rental income from investment properties, which are all located in Hong Kong reduced to approximately HK$22,432,000 (2005: approximately HK$24,345,000). The average rental income of the Group decreased nearly 7.9% during the year under review. As at 31 March 2006, the Group's commercial rental properties were 100% leased. Its industrial rental properties also continued to maintain a high occupancy rate of 89%. The building management fee income during the year under review was approximately HK$268,000 (2005: approximately HK$173,000).

The sale of residential units of Fa Yuen Plaza in Mongkok generated approximately HK$8,349,000 cash inflow to the Group during the year under review (2005: approximately HK$39,017,000). As at 31 March 2006, approximately 88% of the available units were sold with the average selling price per square foot gross floor area increased from approximately HK$3,500 to approximately HK$4,100 during the year under review.

As at 31 March 2006, the Group's entire property portfolio stood over HK$604,126,000 (31 March 2005: approximately HK$641,594,000).

Prospects

Garment sourcing and export

Although the re-imposition of the textile quotas by the US and the European Union still affects the Group's garment export business, the directors anticipate that the garment business of the Group will remain stable in view of the stable customer base and customer orders.

The Group will continue to retain and strengthen its well-developed sales network and business relationship with its existing clients and explore collaboration opportunities with potential customers. The Group will also expand its product range with infant wear as the focus in order to enlarge its income base.

Property investment

Commercial property investment will be the focal strategic development of the Group in the future. According to a recent international research on global rental expenditure, the office rental expenditure in Hong Kong ranked third globally and reached its peak in 2005. In addition, during the year under review, Hong Kong recorded a steady economic growth. According to the figures from the Hong Kong Trade Development Council, the real Gross Domestic Product has experienced continuous growth over the last two years, which has favoured the retail market in Hong Kong. Furthermore, sight-seeing spots in Hong Kong such as Ocean Park, Ngong Ping 360 and the Hong Kong Wetland Park, and the expanded Individual Visit Scheme have also helped boosting tourism and the retail industry in Hong Kong. Rental income is thus expected to increase, especially in prime areas such as Causeway Bay, Tsimshatsui and Mongkok. In light of the above favourable conditions to the local property market, the Group will grasp the business opportunities arisen and further strengthen its property investment in the territory in order to enhance its property portfolio and shareholders' returns.

Besides, the Group also regards the property market in Macau as a potential investment opportunity. As the gambling business in Macau flourishes, the Group believes that tourism and the retail market in Macau will grow dramatically. The Group will identify potential property development opportunities in Macau in a bid to expand its property portfolio outside Hong Kong.

Liquidity and Financial Resources

During the year ended 31 March 2006, the Group financed its operations mainly by the net proceeds from the disposal of the Properties (as defined in "Business Review" above), internally generated resources and bank borrowings. The Group's total bank borrowings declined by approximately 98.0% to approximately HK$3,819,000 at 31 March 2006 (31 March 2005: approximately HK$187,349,000 (but excluding obligations under finance leases)), which are all short-term borrowings. All the loans are secured and denominated in Hong Kong dollars and US dollars with prevailing market interest rates. The Group's borrowings are mostly event driven, with little seasonality. As at 31 March 2006, the shareholders' fund of the Group amounted to approximately HK$1,030,928,000 (31 March 2005: approximately HK$1,053,688,000). The Group's gearing ratio, which was calculated on the basis of the total borrowings to the shareholders' fund, decreased substantially from approximately 0.178 as at 31 March 2005 to approximately 0.004 as at 31 March 2006.

The Group continued to sustain a good liquidity position. As at 31 March 2006, the Group had net current assets of approximately HK$281,721,000 (31 March 2005: approximately HK$472,509,000) and cash and cash equivalents of approximately HK$174,580,000 (31 March 2005: approximately HK$83,901,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong dollars and US dollars. As at 31 March 2006, the current ratio of the Group was approximately 4.78 (31 March 2005: approximately 3.43), which was calculated on the basis of current assets of approximately HK$356,172,000 (31 March 2005: approximately HK$667,042,000) to current liabilities of approximately HK$74,451,000 (31 March 2005: approximately HK$194,533,000). The improvement in the current ratio was mainly due to repayment of the majority of the Group's borrowings during the year ended 31 March 2006. During the year under review, the Group serviced its debts primarily through the proceeds from the disposal of the Properties and internally generated resources. Final dividend for the year ended 31 March 2005 amounting to approximately HK$6,618,000 was paid in September 2005.

The directors believe that the Group has sufficient financial resources for its operations.

Exposure to Fluctuations in Exchange Rates and Related Hedges

Most of the Group's revenues and payments are in Hong Kong dollars and US dollars. As the Hong Kong dollars are pegged to the US dollars, the Group had no significant exposure to fluctuations in exchange rates during the year under review. Hence, no financial instrument for hedging purposes was employed.

Capital Structure

The Group has no debt securities or other capital instruments as at 31 March 2006 and up to the date of this announcement.

Material Acquisitions and Disposals

The Group had no material acquisitions or disposal of subsidiaries or associates during the year ended 31 March 2006.

Charges on Group Assets

As at 31 March 2006, certain leasehold properties and investment properties of the Group with carrying amounts of approximately HK$9,116,000 (31 March 2005: approximately HK$9,337,000) and approximately HK$588,000,000 (31 March 2005: approximately HK$619,010,000), respectively, were pledged to banks to secure the bank borrowings granted to the Group.

Capital Expenditure and Capital Commitments

During the year ended 31 March 2006, the Group spent approximately HK$1,077,000 (2005: approximately HK$1,589,000) on acquisition of property, plant and equipment.

As at 31 March 2005 and 31 March 2006, the Group had no significant capital commitments.

Contingent Liabilities

As at 31 March 2006, the outstanding amount of the Group's banking facilities utilised to the extent of approximately HK$8,333,000 (31 March 2005: approximately HK$188,913,000) were supported by the Company's corporate guarantees given to the banks and the Group did not have bills discounted with recourse under the contingent liabilities (31 March 2005: approximately HK$3,441,000).

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31 March 2006.

Significant Investment

As at 31 March 2006, the Group had significant investments in a portfolio of equity securities listed in Hong Kong, which comprised available-for-sale investments of approximately HK$93,987,000 and investments held for trading of approximately HK$3,600,000 (31 March 2005: other investments of approximately HK$244,030,000). All these investments were stated at fair value and their fair values were determined by reference to the bid prices quoted in active markets.

The available-for-sale investments of approximately HK$8,255,000 represented 33,286,100 shares of Capital Estate Limited ("Capital Estate"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") acquired by the Group during the year under review (the "Aggregated Acquisition"). The Aggregated Acquisition constitutes a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and its details are set out in the circular of the Company dated 14 November 2005. Due to the changes in the issued share capital of Capital Estate, the number of shares held by the Group therein has been adjusted to 166,430,500, representing approximately 12.56% and 10.48% of the issued share capital of Capital Estate as at 31 March 2006 and the date of this announcement, respectively.

In respect of the listed securities performance for the year under review, the Group recorded gain on fair value changes of investments held for trading of approximately HK$12,000 (2005: unrealised gain on other investments of approximately HK$158,579,000).

Save as disclosed above, the Group did not have any significant investment held or any significant investment plans as at 31 March 2006.

Future Plan for Material Investments

While the directors of the Company are constantly looking for investment opportunities, no concrete new investment projects have been identified.

Post Balance Sheet Events

On 8 March 2006, the Company announced that the Board proposed a rights issue of not less than 661,836,693 rights shares of HK$0.10 each at a subscription price of HK$0.12 per rights share on the basis of one rights share for every two shares held. As a result of the rights issue, the issued share capital of the Company has been increased from HK$132,367,338.60 to HK$198,551,007.90 comprising 1,985,510,079 shares of HK$0.10 each with effect from 24 April 2006. The Company has raised approximately HK$77,800,000 (net of expenses) from the rights issue. Details of the rights issue are set out in the prospectus of the Company dated 3 April 2006.

On 22 May 2006, the Company announced that the Board proposed to seek a voluntary delisting (the "Delisting") of the Company's shares from the Official List of The Singapore

Exchange Securities Trading Limited (the "SGX-ST"). On 26 June 2006, the SGX-ST granted in-principle approval for the Delisting. The Delisting will be conditional upon the approval of the shareholders of the Company at a special general meeting to be held on 31 July 2006. Details of the Delisting are set out in the circular of the Company dated 7 July 2006.

On 8 June 2006, the Company announced that Easyknit Properties Holdings Limited, a wholly-owned subsidiary of the Company, as purchaser has entered into a sale and purchase agreement dated 6 June 2006 with Mr. Ng Chi Keung as vendor in relation to the acquisition (the "Transaction") of Happy Light Investments Limited ("Happy Light") for a consideration of HK$53,680,000. The Group proposes to acquire Happy Light so as to acquire interests in certain properties, which consist of 18 out of 20 units in a building on Victory Avenue, Kowloon, Hong Kong (the "Building"). The Group intends to acquire the remaining 2 units and estimates that it will incur approximately HK$170,000,000 in total for the acquisition of the whole Building for redevelopment. The Transaction constitutes a major transaction for the Company under the Listing Rules. It was approved by the shareholders of the Company at a special general meeting held on 19 July 2006. Completion of the Transaction is expected to take place on 22 July 2006. Details of the Transaction are set out in the circular of the Company dated 3 July 2006.

Employment and Remuneration Policy

As at 31 March 2006, the number of employees of the Group in Hong Kong and the US was about 60 and 16 respectively. Staff costs (including directors' emoluments) amounted to approximately HK$27,152,000 for the year under review (2005: approximately HK$27,798,000). The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up the Mandatory Provident Fund Scheme for the Hong Kong's employees and has made contributions to the pension scheme for the US staff. The Group also has a share option scheme to motivate valued employees.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2006.

AUDIT COMMITTEE

The Company established an Audit Committee in December 1999 with written terms of reference. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang. The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters, including review of the audited consolidated financial statements for the year ended 31 March 2006.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in effect as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules throughout the year ended 31 March 2006 except for the deviations as mentioned in the section "Corporate Governance" contained in the Company's interim report for the six months ended 30 September 2005 (the "2005 Interim Report"). After the issue of the 2005 Interim Report, the terms of reference of the Remuneration Committee have been revised with certain deviations from the Code provision B.1.3. The major deviations are that the Remuneration Committee of the Company should, pursuant to its revised terms of reference, make recommendations to the Board on the Company's policy and structure for all remuneration of directors only but not senior management; and review (as opposed to determine under the Code provision) and make recommendations to the Board on the remuneration packages of the executive directors only but not senior management. The reasons for these deviations are as follows:

1. the Remuneration Committee comprises independent non-executive directors only who are not involved in the daily operation of the Group. They may not be industry skilled due to their different backgrounds and professions and may not be knowledgeable about the prevailing remuneration packages for directors and senior management in the industry where the Company is operating. The Remuneration Committee is thus not in a position to properly "determine" the remuneration of the executive directors and senior management;

2. the Remuneration Committee members are not in a position to properly evaluate the performance of senior management due to their limited time involved in the Company's business. The evaluation process is more effectively carried out by the executive directors who devote all of their active business time to the business and affairs of the Group; and

3. the executive directors may not be able to take good control of their subordinates if they are not directly involved in evaluating and determining their subordinates' remuneration. As a result, the efficiency and effectiveness of the Company's operations may be affected.

Further information on the Company's corporate governance practices and details of the Company's deviations from certain Code provisions during the year under review will be set out in the "Corporate Governance Report" to be contained in the Company's annual report for the year ended 31 March 2006 which will be despatched to the shareholders of the Company by the end of July 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct in relation to directors' securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2006.

By Order of the Board
Easyknit International Holdings Limited
Tse Wing Chiu, Ricky
President and Chief Executive Officer

Hong Kong, 21 July 2006

As of the date of this announcement, the Board comprises Mr. Tse Wing Chiu, Ricky and Ms. Lui Yuk Chu as executive directors and Mr. Wong Sui Wah, Michael, Mr. Tsui Chun Kong and Mr. Jong Koon Sang as independent non-executive directors.

* *For identification only*